
**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
POLICY SUBCOMMITTEE
OF THE
INVESTMENT COMMITTEE**

MINUTES OF MEETING

August 10, 2007

A meeting of the Policy Subcommittee was held on Friday, August 10, 2007 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 10:35 a.m. and the following members were present:

Priya Mathur, Chair
Marjorie Berte, Vice Chair
Robert Carlson

Policy Subcommittee members excused:

Tony Oliveira
Charles Valdes

Other Board members present:

George Diehr

AGENDA ITEM 2 – APPROVAL OF THE JUNE 2007 MEETING MINUTES

On **MOTION** by Mr. Carlson, **SECONDED** and **CARRIED** to approve the June 15, 2007 meeting minutes as presented.

AGENDA ITEM 3a – 2007-08 POLICY REVIEW PROJECT ITEM, Asset Allocation Policy – Revision of Asset Allocation Strategy

Anne Stausboll, Chief Operating Investment Officer, and Rick Roth, Interim Senior Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

The proposed revisions provide for the addition of two types of asset class overlay accounts:

- Equitization involves the use of long equity futures to convert cash to long equity exposure. The motive is to earn an equity return premium versus cash over the long-term.
- Rebalancing is bringing portfolio asset class allocations closer to policy targets. Rebalancing is intended to reduce the active (benchmark-relative) risk of the total fund.

The returns of these two accounts will be measured and included in the returns of the Asset Allocation Unit and Total Fund. This ensures accountability in the management of the asset class overlay accounts.

In addition, the revisions provide additional language and clarification pertaining to the selection of asset class policy targets and ranges, add glossary terms, and conform to the new Investment Policy Template.

There was discussion about additional review by the Chief Actuary and input from Consultant Bill Sharpe.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the revised policy with additional edits, with the condition that the Chief Actuary review the policy and comment prior to adoption by the Investment Committee.

The Chair directed staff that if the Chief Actuary's comments are minor, the policy would be forwarded to the Investment Committee for approval at the September meeting. Otherwise the policy would be scheduled for a second reading at the October Policy Subcommittee meeting.

In addition, staff was directed to consult with Consultant Bill Sharpe regarding language about the impact of asset allocation on performance, and make any appropriate changes.

Mr. Carlson preferred that the policy come back to the Subcommittee for a second reading and he voted no on the motion.

AGENDA ITEM 4a – INVESTMENT ASSET CLASS POLICY – Global Fixed Income – Revision of Dollar-Denominated Fixed Income Program

This item was deferred. [Subsequent to the meeting it was decided to place this item on the September Investment Committee agenda.]

AGENDA ITEM 4b – INVESTMENT ASSET CLASS POLICY – Global Equity – Revision of Global Equity Sub-Asset Class Allocation Ranges

Christy Wood, Senior Investment Officer, and Craig Dandurand, Investment Officer, presented the item. Andrew Junkin, Wilshire Associates, was available to respond to questions from the Subcommittee.

The Investment Committee, at its June 2007 meeting, approved revisions to the global equity sub-asset class allocation ranges. Those revisions, reflected in the revised policy, reduced the target allocation to passive investment strategies and increased the allocation to alternative investment strategies, specifically Corporate Governance and Risk Managed Absolute Return Strategies. In addition, the policy was conformed to the new Investment Policy Template and a definition for the benchmark for the international segment of Global Equity was added to the glossary of the policy.

There was discussion regarding portfolio risk and the development of a risk budget.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to recommend to the Investment Committee approval of the revised Statement of Investment Policy for Global Equity Sub-Asset Class Allocation Ranges.

AGENDA ITEM 4c – INVESTMENT ASSET CLASS POLICY – Real Estate – Revision of Timber Real Estate

Ted Eliopoulos, Senior Investment Officer, Al Fernandez, Senior Portfolio Manager, and Dilo Seneviratne, Investment Officer, presented the item. Andrew Howard with Cortex Consultants also participated in the presentation. Pam Alsterlind, PCA Real Estate Advisors, was available by phone.

As follow up to discussions at the June Investment Committee meeting and the July Board Offsite meeting relevant to a new Inflation-Linked Asset Class, staff recommended that the Real Estate policy governing timberland investments be updated to allow CalPERS to pursue new opportunities in the timberland sector.

There was discussion regarding clearly differentiating between forestland, agriculture, and real estate investments, and asset class allocations and delegations.

The Subcommittee approved the revised policy as a first reading and directed that it be brought back as a part of the overarching Inflation Linked Asset Class policy in October. [At the September Investment Committee meeting, it was decided to place this item on the October Investment Committee agenda.]

AGENDA ITEM 5 – PROPOSED 2008 MEETING DATES

Anne Stausboll, Chief Operating Investment Officer, presented the item.

On **MOTION** by Ms. Berte, **SECONDED** and **CARRIED** to approve the proposed 2008 Policy Subcommittee meeting dates.

AGENDA ITEM 6 – DRAFT AGENDA FOR OCTOBER 2007

The Subcommittee accepted the proposed October 12, 2007 agenda.

AGENDA ITEM 7 – PUBLIC COMMENT

There were no public comments.

The meeting was adjourned at 12:00 p.m.

The next Policy Subcommittee meeting is scheduled for October 12, 2007 at a time to be determined in Sacramento, California.